

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 NEAE-00 L-03 EB-08 OC-06 CCO-00  
COME-00 /028 W

-----083297 261646Z /42

P R 261550Z JUL 77  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC PRIORITY 7706  
INFO AMCONSUL ALEXANDRIA

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FOR NEA/EGY

ALEXANDRIA FOR CRAIG

E.O. 11652: NA  
TAGS: BDIS ETRD EG US  
SUBJ: PETROLEUM: LVO CASE

REF: STATE 173685

1. POUCHED DOCUMENTS RECEIVED JULY 11.

2. LVO REPS HAD NOT PREVIOUSLY CONTACTED EMBASSY ON THIS  
PROBLEM, BUT CAIRO-BASED DEP GEN MGR KILLIAN TELEPHONED JULY  
25, BEFORE RECEIPT OF REFTEL, AND DISCUSSED MATTER WITH EMBOFF  
FOLLOWING DAY, AFTER REFTEL HAD COME IN. KILLIAN'S STATED  
PURPOSE IN COMING TO EMBASSY WAS TO MAKE SURE WE WERE INFORMED ON  
QUESTION. HE SAID LVO HAD DISPOSED OF \$150,000 WORTH OF ASSETS  
IN RECENT MONTHS AND ONLY RAN INTO DIFFICULTY ABOUT SALE OF PIPE  
AFTER IT BECAME EVIDENT TO EGPC THAT COMPANY DID NOT INTEND TO  
INCURE ANY FURTHER DRILLING EXPENSES DURING REMAINDER OF CONCESSION  
PERIOD. NEGATIVE RESPONSE FROM EGPC ON PIPE SALE VALUED AT ABOUT  
\$700,000 ACTUALLY CAME AS RESULT OF LVO LETTER REQUEST,  
INCLUDING PROPOSED BUDGET, TO PHASE OUT KILLIAN'S ASSIGN-  
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MENT AND REPLACE HIM WITH EGYPTIAN NATIONAL AS ADMINISTRATIVE  
MANAGER. (EXPLORATION AND PRODUCTION AGREEMENT, ACCORDING TO  
KILLIAN, REQUIRES THAT COMPANY KEEP TWO QUALIFIED PETROLEUM  
TECHNICAL SPECIALISTS IN COUNTRY AS GEN MGR AND DEP GEN MGR, A  
REQUIREMENT ONLY PARTIALLY MET IN REALITY BY LVO OVER  
PAST THREE YEARS.)

3. RESPONSE OF LVO TO EGPC'S NEGATIVE DECISION ON PIPE, AS DESCRIBED BY KILLIAN, HAS BEEN SERIES OF CONFERENCES UP TO LEVEL OF MINPETROLEUM HILAL. KILLIAN NOTED PRIVATELY THAT AT LEAST ONE MEETING HAD DEGENERATED INTO DISPLAY OF NEAR-INSULTING BEHAVIOR ON PART OF VISITING LVO VICE PRESIDENT. NON OF THESE APPROACHES BY COMPANY HAVE BEEN TO ANY AVAIL, AND MATTER RESTS WITH LVO'S ASSETS BLOCKED. LVO OFFICIAL SAID COMPANY HAS NOT TAKEN DISPUTE TO ARBITRATION AS PROVIDED FOR IN AGREEMENT BECUASE OF ABSENCE OF EGPC ASSETS OUTSIDE EGYPT TO MEET AWARD EVEN IF CASE WERE WON. HE NOTED LVO'S CIRCUMSTANCES ARE PRECEDENT SETTING IN THAT OTHER FOREIGN OIL COMPANIES (HE MENTIONED BRAZPETRO) WILL BE FOLLOWING ALONG IN THEIR DESIRE TO DROP CONCESSIONS AND DISPOSE OF ASSETS.

4. WE HAD HEARD EARLIER THAT LVO HAD MANAGED TO ANTAGONIZE EGPC WITH AN INTEMPERATE APPROACH ON DISPOSAL OF PROPERTY AND THAT TURN-DOWN HAD RESULTED DIRECTLY THREFORM. WHILE THAT REPORT WOULD SEEM TO BE OVERSIMPLIFIED VERSION OF FACTS, US PETROLEUM SECTOR CONTACTS HERE NONETHELESS HAVE NOTED TO US THAT ARTICLE EIGHT OF AGREEMENT SIGNED BY LVO IS CONSTRUED TO REQUIRE FORMAL EGPC APPROVAL FOR SUCH TRANSACTIONS AND THAT CLAUSE IS NOT CONSIDERED BY INDUSTRY TO BE UNUSUAL. OIL COMPANIES OTHER THAN LVO APPARENTLY ARE PREPARED IF NECESSARY TO ACCEPT RISK OF LOSS OF ASSETS IN THAT MANNER AS POSSIBLE TAX WRITE-OFF. NONE OF US CONTACTS WE HAVE TALKED WITH (FYI: CONOCO, CHEVRON AND AMOCO) CHARACTERIZES REQUIREMENT IN AGREEMENT AS DISCRIMINATORY OR CONCISCATORY.

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3. REGARDLESS OF MERITS OF CASE OR LEGALITIES INVOLVED, ON WHICH WE ARE NOT IN POSITION TO MAKE DEFINITIVE JUNDEMENT, EM-BASSY IS PREPARED TO DISCUSS PROBLEM WITH EGPC AND SEEK REVERSAL OF DECISION ADVERSELY AFFECTING LVO. OUR HAD WOULD BE STRENGTHENED IN THIS REGARD IF CHAPTER AND VERSE COULD BE PROVIDED ON HOW LOSS OF ASSETS WOULD AFFECT LVO AND NATIONAL COUNCIL NET OF ANY APPROPRIATE TX REDUCTIONS.

4. PASSING BRIMMING CUP BACK TO YOU, WE REQUEST ADVICE ON WHETHER APPROACH TO EGPC, RESULTS OF WHICH ARE UNCERTAIN, OF COURSE, WOULD BE HELPFUL IN CIRCUMSTANCES.  
EILTS

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NNN



## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, EQUIPMENT, TRADE COMPLAINTS  
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**Copy:** SINGLE  
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**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977CAIRO12479  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770266-0564  
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**Office:** ACTION NEA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 STATE 173685  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
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**Review Withdrawn Fields:** n/a  
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**Status:** NATIVE  
**Subject:** PETROLEUM: LVO CASE  
**TAGS:** BDIS, ETRD, ENRG, EG, US, LVO  
**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
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